

Department of Health Services
Behavioral Health

JLBC: Jenna Seplow
 OSPB: Ryan Harper

DESCRIPTION	FY 2006 ACTUAL	FY 2007 ESTIMATE	FY 2008 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	122.0	122.0	122.0
Personal Services	2,983,500	3,325,700	3,325,700
Employee Related Expenditures	951,000	1,407,300	1,468,800
Professional and Outside Services	532,200	481,700	481,700
Travel - In State	46,900	87,500	87,500
Travel - Out of State	6,600	11,300	11,300
Other Operating Expenditures	3,700,600	3,902,500	3,841,000
Equipment	130,500	91,800	91,800
OPERATING SUBTOTAL	8,351,300	9,307,800	9,307,800
SPECIAL LINE ITEMS			
Administration			
Dual Eligible Part D Copay Subsidy	0	480,000	480,000
Medicare Clawback Payments	2,812,900	10,062,700	10,606,700
Medicaid Special Exemption Payments	15,690,500	16,980,900	17,930,200
Proposition 204 Administration	6,795,700	6,534,800	6,534,800
Children's Behavioral Health			
Children's Behavioral Health Services	9,351,800	9,351,800	9,351,800
CBH State Match for Title XIX	266,637,000	290,378,100	322,888,500
Proposition 204 Children's Behavioral Health Services	2,112,200	3,861,400	4,145,100
Seriously Emotionally Handicapped Children	0	500,000	500,000
Seriously Mentally Ill			
Seriously Mentally Ill Non-Title XIX	60,698,700	61,116,700	61,116,700
Seriously Mentally Ill State Match for Title XIX	160,022,000	162,835,400	181,752,500
Proposition 204 Seriously Mentally Ill Services	162,857,300	160,688,400	173,129,100
Seriously Mentally Ill Housing	0	2,500,000	0
Court Monitoring	338,800	197,500	197,500
Arnold v. Sarn	41,491,700	37,468,900	37,323,600
General Mental Health and Substance Abuse			
Mental Health Non-Title XIX	2,374,000	2,447,300	2,447,300
Substance Abuse Non-Title XIX	14,635,400	14,635,400	14,635,400
Mental Health and Substance Abuse State Match for Title XIX	78,298,500	87,612,900	96,343,900
Proposition 204 General Mental Health and Substance Abuse	72,676,700	83,449,400	89,874,200
Substance Abuse Treatment	0	3,000,000	0
PROGRAM TOTAL	905,144,500	963,409,400	1,038,565,100
FUND SOURCES			
General Fund	341,547,100	374,606,500	399,431,600
<u>Other Appropriated Funds</u>			
Substance Abuse Services Fund	2,500,000	2,500,000	2,500,000
TTHCF Medically Needy Account	30,371,900	30,424,800	30,424,800
SUBTOTAL - Other Appropriated Funds	32,871,900	32,924,800	32,924,800
SUBTOTAL - Appropriated Funds	374,419,000	407,531,300	432,356,400
<u>Expenditure Authority Funds</u>			
Federal Title XIX Funds	530,725,500	555,878,100	606,208,700
SUBTOTAL - Expenditure Authority Funds	530,725,500	555,878,100	606,208,700
SUBTOTAL - Appropriated/Expenditure Authority Funds	905,144,500	963,409,400	1,038,565,100
Other Non-Appropriated Funds	59,723,600	64,294,800	64,294,800
Federal Funds	43,312,400	42,763,800	42,701,900
TOTAL - ALL SOURCES	1,008,180,500	1,070,468,000	1,145,561,800

CHANGE IN FUNDING SUMMARY

	FY 2007 to FY 2008 JLBC	
	\$ Change	% Change
General Fund	24,825,100	6.6%
Other Appropriated Funds	0	0.0%
Expenditure Authority Funds	50,330,600	9.1%
Total Appropriated/Expenditure Authority Funds	75,155,700	7.8%
Non Appropriated Funds	(61,900)	(0.1%)
Total - All Sources	75,093,800	7.0%

COST CENTER DESCRIPTION — The Behavioral Health program administers most mental health services for the state including both adult and children's behavioral health services, substance abuse treatment and seriously emotionally handicapped children. Most services are provided through contracts with 5 Regional Behavioral Health Authorities (RBHAs) which then subcontract for provision of services with a provider network.

PERFORMANCE MEASURES	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2008 JLBC
• % of RBHA Title XIX clients satisfied with services	NA	75.4	NA	90
Comments: The agency did not submit information for this measure in FY 2006 as required by the General Appropriation Act. Satisfaction surveys are completed biennially; therefore, there is no information to report for FY 2006.				
• % of Title XIX population that is enrolled in a behavioral health service	11.2	12.6	11	13.5

CHANGES FROM FY 2007

Title XIX Caseload and Inflation

The JLBC includes an increase of \$80,832,900 for expected growth in the Title XIX Behavioral Health Programs. This amount consists of \$30,325,100 from the General Fund and \$50,507,800 from Federal Title XIX Expenditure Authority (EA).

Behavioral Health Services (BHS) Title XIX enrollment growth is expected to be 3% from June 2007 to June 2008. This consensus estimate represents the average of 3 different enrollment forecasts from the JLBC Staff, AHCCCS and an econometric model developed by the Economic and Business Research Program at the University of Arizona. This latter model uses economic variables such as population growth and various employment measures in

estimating AHCCCS caseload growth.

The included increase is also based on a weighted capitation rate growth of 8%. BHS capitation rate growth was 5.2% in FY 2007, 11.4% in FY 2006, and 12.8% in FY 2005

Table 1 summarizes the FY 2008 General Fund projections as well as estimated Clawback payments in FY 2007 and FY 2008.

State monies provide approximately a 33% match to the Federal Funds (EA) received. A decrease in the Federal Medical Assistance Percentage (FMAP) means the state will pay approximately \$3 million more in state match in FY 2008. These amounts are incorporated into *Table 1* below. The increase also includes changes in behavioral health services and Medicaid Special Exemption Payments but does not address any changes in administrative costs.

Table 1 General Fund Title XIX Behavioral Health Projections				
	FY 2007 Appropriated	FY 2007 Revised	FY 2008	FY 2008 Above FY 2007 Appropriated
CBH	\$ 96,993,600	\$ 95,503,000	\$108,918,300	\$11,924,700
CBH Proposition 204	1,289,800	1,226,500	1,398,200	108,400
SMI	54,391,100	52,984,600	61,359,100	6,968,000
SMI Proposition 204	53,673,900	51,061,700	58,400,800	4,726,900
GMH/SA	29,264,900	28,459,100	32,499,200	3,234,300
GMH/SA Proposition 204	27,874,200	26,546,000	30,316,800	2,442,600
Medicaid Special Exemption Payments	5,672,100	5,384,000	6,048,300	376,200
Medicare Clawback Payments	10,062,700	9,395,200	10,606,700	544,000
Total	\$279,222,300	\$270,560,100	\$309,547,400	\$30,325,100

Operating Budget

The JLBC includes \$9,307,800 and 122 FTE Positions for the operating budget in FY 2008. This amount consists of \$4,450,100 from the General Fund and \$4,857,700 from Federal Title XIX Expenditure Authority. These amounts are unchanged from FY 2008.

Special Line Items

Administration

Dual Eligible Part D Copay Subsidy

The JLBC includes \$480,000 from the General Fund for the Dual Eligible Part D Copay Subsidy in FY 2008. This amount is unchanged from FY 2007. This line item pays the prescription drug copayments of low income individuals qualifying for both Medicare and Medicaid, known as “dual eligibles.” Prior to the federal government taking over prescription drug costs from the state for dual eligibles on January 1, 2006, these individuals did not pay for their prescriptions. As part of the benefit, however, recipients make copayments for prescription drugs ranging from \$1.00 to \$5.35, depending on the class of the drug as well as the recipient’s income. This line item covers the costs of those copayments.

Medicare Clawback Payments

The JLBC includes \$10,606,700 from the General Fund for new Medicare Clawback Payments costs in FY 2008. This amount would include the following adjustment:

Clawback Payments	GF	544,000
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The JLBC includes an increase of \$544,000 from the General Fund for estimated Clawback Payments to the federal government in FY 2008.

The line item is used to make payments to Medicare, as required by the Medicare Modernization Act (MMA). As part of the MMA effective January 1, 2006, DHS is not required to pay for prescription drug costs for members that are also eligible for Medicare. Instead, DHS is required to make “Clawback” payments to Medicare based on 88% of the estimated prescription drug cost of this population in FY 2008. The state’s share of 88% declines annually by 1.7% and the Clawback cost per member is annually increased based on national health trend information.

Medicaid Special Exemption Payments

The JLBC includes \$17,930,200 for Medicaid Special Exemption Payments in FY 2008. This amount consists of \$6,048,300 from the General Fund and \$11,881,900 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

Title XIX Caseload and	GF	376,200
Capitation Rate Growth	EA	573,100

The JLBC includes an increase of \$949,300 in FY 2008 for increased Medicaid Special Exemption Payments related

to Title XIX caseload and capitation rate growth. This amount consists of \$376,200 from the General Fund and \$573,100 from Federal Title XIX expenditure authority.

This line item provides the funding necessary for insurance premium tax payments by DHS. The department is required to pay a 2% tax on the capitation payments it pays to RBHAs. Therefore, any increases in capitation payments associated with caseload growth and inflation necessitate an increase in premium tax payments. The amount excludes premium tax payments for the behavioral health capitation revenue from developmentally disabled clients, which is funded in the Department of Economic Security’s budget.

Proposition 204 Administration

The JLBC includes \$6,534,800 for Proposition 204 Administration in FY 2008. This amount consists of \$2,130,200 from the General Fund and \$4,404,600 from Federal Title XIX Expenditure Authority. These amounts are unchanged from FY 2007.

The implementation of Proposition 204, passed by the voters in November of 2000, expanded categories of eligibility for Title XIX services, including behavioral health services, up to 100% of the federal poverty level. This line item provides funding for the administrative component of this expansion.

Children’s Behavioral Health (CBH)

Children’s Behavioral Health Services

The JLBC includes \$9,351,800 from the General Fund for CBH Services in FY 2008. This amount is unchanged from FY 2007. This line item provides General Fund monies for prevention programs and for treatment of Non-Title XIX eligible children.

Children’s Behavioral Health State Match for Title XIX

The JLBC includes \$322,888,500 for CBH State Match for Title XIX in FY 2008. This amount consists of \$108,918,300 from the General Fund and \$213,970,200 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

Title XIX Caseload and	GF	11,924,700
Capitation Rate Growth	EA	20,585,700

The JLBC includes an increase of \$32,510,400 in FY 2008 for Title XIX Children’s Behavioral Health caseload and capitation rate growth. This amount consists of \$11,924,700 from the General Fund and \$20,585,700 from Federal Title XIX Expenditure Authority. The amount assumes 8% growth in the monthly capitation rate (from \$55.85 to \$60.32), and 3% growth in client population from June 2007 to June 2008.

This line item funds behavioral health treatment to Title XIX eligible children. The amount provides capitation payments for an average of approximately 446,735 eligible

children per month. DHS receives a monthly capitation payment from AHCCCS for every child eligible for Title XIX behavioral health services, although only an estimated 6% of the eligible population will utilize services.

Proposition 204 Children's Behavioral Health Services

The JLBC includes \$4,145,100 for Proposition 204 CBH Services in FY 2008. This amount consists of \$1,398,200 from the General Fund and \$2,746,900 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

Title XIX Caseload and	GF	108,400
Capitation Rate Growth	EA	175,300

The JLBC includes an increase of \$283,700 in FY 2008 for Proposition 204 Children's Behavioral Health caseload and capitation rate growth. This amount consists of \$108,400 from the General Fund and \$175,300 from Federal Title XIX Expenditure Authority. The included amount assumes 8% growth in the monthly capitation rate (from \$55.85 to \$60.32), and 3% growth in client population from June 2007 to June 2008.

This line item provides behavioral health treatment to children eligible for Title XIX pursuant to Proposition 204. Because most children were already eligible for Title XIX prior to the implementation of Proposition 204, this population is very small. The included amount would provide capitation payments for an average of approximately 5,978 eligible children per month in FY 2008. DHS receives a monthly capitation payment from AHCCCS for every child eligible for Title XIX behavioral health services, although only an estimated 6% of the eligible population will utilize services.

Seriously Emotionally Handicapped Children

The JLBC includes \$500,000 from the General Fund for Seriously Emotionally Handicapped Children in FY 2008. This amount is unchanged from FY 2007. This line item provides General Fund monies for a portion of the cost of residential treatment and educational services for children referred by school districts. Referrals are based on an inability to educate the children in a conventional school environment due to a serious emotional handicap. Funding is also provided for this program through the state Department of Education and local school districts.

Seriously Mentally Ill (SMI)

SMI is a population of adult patients with more long-term or ongoing mental illness than those funded through the General Mental Health Special Line Items.

Seriously Mentally Ill Non-Title XIX

The JLBC includes \$61,116,700 for SMI Non-Title XIX services in FY 2008. This amount consists of \$30,691,900 from the General Fund and \$30,424,800 from the Tobacco Tax and Health Care Fund Medically Needy Account. These amounts are unchanged from FY 2007. This line item provides funding for treatment for SMI clients that are not eligible for Title XIX coverage.

Seriously Mentally Ill State Match for Title XIX

The JLBC includes \$181,752,500 for SMI State Match for Title XIX in FY 2008. This amount consists of \$61,359,100 from the General Fund and \$120,393,400 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

Title XIX Caseload and	GF	6,968,000
Capitation Rate Growth	EA	11,949,100

The JLBC includes an increase of \$18,917,100 in FY 2008 for Title XIX Seriously Mentally Ill caseload and capitation rate growth. This amount consists of \$6,968,000 from the General Fund and \$11,949,100 from Federal Title XIX expenditure authority. The included amount assumes an 8% increase in the monthly capitation rate (from \$70.62 to \$76.27), and 3% growth in client population from June 2007 to June 2008.

This line item provides behavioral health treatment to Title XIX eligible SMI adults. The included amount would provide capitation payments for an average of approximately 211,671 eligible adults. DHS receives a monthly capitation payment from AHCCCS for every adult eligible for Title XIX behavioral health services, although only an estimated 5% of the eligible population will utilize services.

Proposition 204 Seriously Mentally Ill Services

The JLBC includes \$173,129,100 for Proposition 204 Seriously Mentally Ill (SMI) Services in FY 2008. This amount consists of \$58,400,800 from the General Fund and \$114,728,300 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

Title XIX Caseload and	GF	4,726,900
Capitation Rate Growth	EA	7,713,800

The JLBC includes an increase of \$12,440,700 in FY 2008 for Proposition 204 SMI caseload and capitation rate growth. This amount consists of an increase of \$4,726,900 from the General Fund and an increase of \$7,713,800 from Federal Title XIX Expenditure Authority. The included amount assumes an 8% increase in the monthly capitation rate (from \$70.62 to \$76.27), and 3% growth in client population from June 2007 to June 2008.

This line item provides behavioral health treatment to SMI adults who are Title XIX eligible pursuant to Proposition 204. The included amount would provide capitation payments for an average of approximately 197,457 eligible adults. DHS receives a monthly capitation payment from AHCCCS for every adult eligible for Title XIX behavioral health services, although only an estimated 5% of the eligible population will utilize services.

Seriously Mentally Ill Housing

The JLBC includes no funding from the General Fund for seriously mentally ill housing in FY 2008. This amount would fund the following adjustment:

One-Time Funding for

SMI Housing GF (2,500,000)

The JLBC includes a decrease of \$(2,500,000) from the General Fund in FY 2008 to reflect one-time funding for this Special Line Item. Laws 2006, Chapter 350 and the Executive designated the funding as one-time as part of the FY 2007 budget process. According to the department, in FY 2007 \$2,000,000 will be spent on purchasing 8-9 permanent housing structures. These structures will be houses or small apartment complexes with 4-5 bedrooms each and will serve 32-40 adults with SMI per month. The remaining \$500,000 will be spent on housing vouchers for approximately 40 individuals per month. Due to tenant turnover, it is estimated that this program will provide housing for a combined total of 240 individuals in FY 2007.

The one-time funding would not affect the 8-9 permanent housing structures DHS plans to purchase in FY 2007. In terms of the housing vouchers, DHS would either need to identify another funding source or discontinue the 40 additional rental subsidies provided each month. DHS spends an additional \$3,000,000 annually from other programs to provide vouchers to over 700 tenants statewide, which would not be impacted by reducing the SMI housing appropriation. Providing a continuum of community housing options is an exit criteria established in the *Arnold v. Sarn* lawsuit.

Court Monitoring

The JLBC includes \$197,500 from the General Fund for Court Monitoring in FY 2008. This amount is unchanged from FY 2007. This line item provides funds for the state share of the expenses incurred by the Office of the Court Monitor, which was established as a result of the *Arnold v. Sarn* lawsuit.

Arnold v. Sarn

The JLBC includes \$37,323,600 for *Arnold v. Sarn* in FY 2008. This amount consists of \$27,500,000 from the General Fund and \$9,823,600 from Federal Title XIX Expenditure Authority. These amounts include the following adjustments:

Decreased FMAP EA (145,300)

The JLBC includes a decrease of \$(145,300) in Federal Title XIX Expenditure Authority in FY 2008 to account for the expected standard change in the Federal Medical Assistance Percentage (FMAP) from Federal Fiscal Year (FFY) 2007 to FFY 2008.

This line item provides additional funding in order to address the requirements of the *Arnold v. Sarn* lawsuit. It is the intent of the Legislature that this funding be used throughout the state for all persons who meet the same criteria as those covered in the *Arnold v. Sarn* lawsuit. Funding in this line item does not represent all of the resources dedicated to addressing the *Arnold v. Sarn* lawsuit.

In order to increase legislative oversight, a footnote in the General Appropriation Act requires the department to report to the Joint Legislative Budget Committee quarterly on the progress being made toward settling the *Arnold v. Sarn* lawsuit.

General Mental Health and Substance Abuse

General Mental Health and Substance Abuse (GMH/SA) funding assists adults who do not qualify as SMI.

Mental Health Non-Title XIX

The JLBC includes \$2,447,300 from the General Fund for Mental Health Non-Title XIX services in FY 2008. This amount is unchanged from FY 2007. This line item provides funding for mental health treatment services for adults who require treatment but are not diagnosed SMI and are not eligible for the Title XIX program, as well as general mental health services for children and for substance abuse services and prevention.

Substance Abuse Non-Title XIX

The JLBC includes \$14,635,400 for Substance Abuse Non-Title XIX services in FY 2008. This amount consists of \$12,135,400 from the General Fund and \$2,500,000 from the Substance Abuse Services Fund. These amounts are unchanged from FY 2007.

This line item provides funding for drug and alcohol abuse services for adults who are not eligible for the Title XIX program.

Mental Health and Substance Abuse State

Match for Title XIX

The JLBC includes \$96,343,900 for General Mental Health and Substance Abuse (GMH/SA) State Match for Title XIX in FY 2008. This amount consists of \$32,499,200 from the General Fund and \$63,844,700 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

Title XIX Caseload and GF 3,234,300 Capitation Rate Growth EA 5,496,700

The JLBC includes an increase of \$8,731,000 in FY 2008 for Title XIX GMH/SA caseload and capitation rate growth. This amount consists of \$3,234,300 from the General Fund and \$5,496,700 from Federal Title XIX Expenditure Authority. The included amount assumes 8% growth in the monthly capitation rate (from \$36.66 to \$39.59) and 3% growth in client population from June 2007 to June 2008.

This line item provides mental health and substance abuse treatment to Title XIX eligible individuals. The included amount would provide capitation payments for an average of approximately 211,671 eligible adults per month. DHS receives a monthly capitation payment from AHCCCS for every adult eligible for Title XIX behavioral health services, although only an estimated 11% of the eligible population will utilize services.

Proposition 204 General Mental Health and Substance Abuse

The JLBC includes \$89,874,200 for Proposition 204 GMH/SA in FY 2008. This amount consists of \$30,316,800 from the General Fund and \$59,557,400 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

Title XIX Caseload and	GF	2,442,600
Capitation Rate Growth	EA	3,982,200

The JLBC includes an increase of \$6,424,800 in FY 2008 for Proposition 204 GMH/SA caseload and capitation rate growth. This amount consists of \$2,442,600 from the General Fund and \$3,982,200 from Federal Title XIX Expenditure Authority. The included amount assumes 8% growth in the monthly capitation rate (from \$36.66 to \$39.59) and 3% growth in client population from June 2007 to June 2008.

This line item provides mental health and substance abuse treatment to individuals who are eligible for Title XIX pursuant to Proposition 204. The included amount would provide capitation payments for an average of approximately 197,457 eligible adults per month. DHS receives a monthly capitation payment from AHCCCS for every adult eligible for Title XIX behavioral health services, although only an estimated 11% of the eligible population will utilize services.

Substance Abuse Treatment

The JLBC includes no funding from the General Fund for Substance Abuse Treatment in FY 2008. This amount would fund the following adjustment:

One-Time Funding for Substance Abuse Treatment	GF	(3,000,000)
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The JLBC includes a decrease of \$(3,000,000) from the General Fund in FY 2008 to reflect one-time funding for substance abuse treatment. Of the \$3,000,000 appropriated, \$2,500,000 was for rural detoxification programs and \$500,000 was distributed to Boys' and Girls' Clubs for substance abuse programs. Funding for the MethSMART program was provided to 16 Boys' and Girls' Clubs statewide and it is estimated that 400 youth are participating in the program. To date, \$1,000,000 of the \$2,500,000 has been allocated to rural RBHAs and Tribal Behavioral Health Authorities to fund projects including mobile outreach, acute and outpatient detoxification beds, aftercare therapy, and housing support.

These monies are non-lapsing through June 30, 2008. Depending on the rate of FY 2007 spending, some of the \$3,000,000 may remain available for expenditure in FY 2008. DHS does not currently have an estimate of when these funds will be fully expended.

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FORMAT — Operating Lump Sum with Special Line Items by Program

FOOTNOTES

Standard Footnotes

The amount appropriated for Children's Behavioral Health Services shall be used to provide services for non-Title XIX eligible children. The amount shall not be used to pay for either federally or nonfederally reimbursed services for Title XIX eligible children, unless a transfer of monies is reviewed by the Joint Legislative Budget Committee.

It is the intent of the Legislature that the total amount available in the *Arnold v. Sarn* Special Line Item be used for the population covered by the *Arnold v. Sarn* lawsuit in counties with a population of over 2 million or more persons and for seriously mentally ill persons that meet the same criteria as those covered by the *Arnold v. Sarn* lawsuit in counties with populations of less than 2 million persons.

The Department of Health Services shall report to the Joint Legislative Budget Committee 30 days after the end of each calendar quarter on the progress the department is making toward settling the *Arnold v. Sarn* lawsuit. THE REPORT SHALL INCLUDE AT A MINIMUM THE DEPARTMENT'S PROGRESS TOWARDS MEETING THE EXIT CRITERIA AND WHETHER THE DEPARTMENT IS IN COMPLIANCE WITH THE EXIT CRITERIA SCHEDULE.

It is the intent of the Legislature that the percent attributable to administration/profit for the regional behavioral health authority in Maricopa County is 9% of the overall capitation rate.

Deletion of Prior Year Footnotes

The JLBC deletes the footnote related to reporting the number of Non-Title XIX clients reviewed for Title XIX eligibility under Proposition 204.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Loss of IMD Waiver

Federal Medicaid law excludes Federal Financial Participation (FFP) payments for services provided to individuals aged 21 to 65 at an Institute for Mental Disease (IMD). An IMD is defined as a hospital or nursing facility, or other institution with more than 16 beds that is primarily engaged (more than 50% of patients) in providing diagnosis, treatment, or care of persons with behavioral health issues, including medical attention, nursing care and related services. This exclusion was designed to assure that states, rather than the federal government, continue to have principal responsibility for funding inpatient psychiatric services.

As part of Arizona's Medicaid Waiver, however, the state has been able to receive federal reimbursement for services provided to individuals aged 21 to 65 at an IMD since July 5, 2000. In FY 2005, the IMD waiver funded 2,679

individuals at 8 privately funded IMD facilities. DHS estimates that approximately half of the individuals served at an IMD are seriously mentally ill and half are substance abusers.

As a result of Arizona's waiver, the federal government contributes approximately 2/3rds of the cost of care for individuals served at an IMD. Starting in FY 2008, the federal government will cut back its reimbursement to the state by 50% and in FY 2009, the federal government will no longer provide funding for services for excluded individuals at an IMD. The estimated loss of federal dollars is approximately \$8.7 million in FY 2008 and \$35 million in FY 2009.

The JLBC does not include General Fund dollars for this item in FY 2008 pending further analysis of this issue. In addition, the Executive proposal to address this issue was not available for review as of this writing in December 2006.

JLBC Staff has identified at least the following options in dealing with the loss of the IMD waiver in FY 2008:

- 1) Backfill the \$8.7 million in federal funding that will be lost as a result of the phase out of the federal waiver. The total backfill required in FY 2009 is expected to be \$35 million. This option would maintain the same level of services that are provided in FY 2007 into FY 2008.
- 2) Do not backfill the \$8.7 million in lost federal revenue, which could equate to a 25% reduction in this program. This could result in a reduction in the number of individuals receiving treatment and/or could reduce the level of care provided to individuals at an IMD. It could also result in more individuals seeking treatment in hospital emergency rooms. Additionally, the level of IMD services may also impact the state's *Arnold v. Sarn* lawsuit.
- 3) Explore shifting clients to facilities with 16 or fewer beds, which would allow them to retain federal funding. Alternatively, the state could examine whether some existing IMDs could be reclassified. For example, an IMD that is in, near, or a satellite of an existing general hospital could be designated "provider base status" of that hospital. This designation would allow these particular beds to receive federal reimbursement as the overall hospital would not be primarily engaged in providing behavioral health care. The JLBC Staff has asked DHS for information on the feasibility of this option.

Auditor General Performance Audit

In September 2006 the Auditor General's Office completed a performance audit of SMI services in Maricopa County. The report stated that SMI monies fund a diverse range of services for approximately 18,000 adults in Maricopa County. The largest expenditure category is support services, including case management. The audit also found that Arizona's mental health spending has significantly increased, with Arizona now ranked seventh nationally in per capita mental health spending, largely due to the lowering of Medicaid income eligibility requirements as a result of Proposition 204.

The audit noted 2 findings that have a fiscal impact: (1) The Auditor General found that the Maricopa County RBHA (ValueOptions) frequently assesses a significantly higher rate to its services than it pays to its subcontractors and the AHCCCS approved fee-for-service rates. This results in the RBHA being able to provide any level of service while meeting the contract's spending requirement. (2) The Auditor General also noted that the Maricopa RBHA has been using surpluses in its SMI program to subsidize losses in other programs. This allows the RBHA to keep its profits within the allowable range and minimize any amount that might be returned to the state. Over time, the capitation rate process should adjust the SMI capitation rate accordingly.

SUMMARY OF FUNDS - SEE AGENCY SUMMARY
